

GAO

Report to the Chairman, Committee on  
the Budget, House of Representatives

October 2000

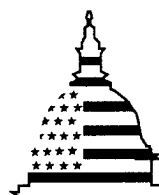
# FEDERAL ACCOUNTING AND REPORTING

## Framework for Assessing the Reliability of Budget Execution Data Is Not Yet Fully Implemented



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Accountability \* Integrity \* Reliability

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## Abbreviations

CCC	Commodity Credit Corporation
CFO Act	Chief Financial Officers Act
DOD	Department of Defense
DOL	Department of Labor
DOT	Department of Transportation
FACTS II	Federal Agencies' Centralized Trial Balance System II
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act
FNS	Food and Nutrition Service
HCFA	Health Care Financing Administration
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
P&F	Program and Financing Schedule
SBR	Statement of Budgetary Resources
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SSA	Social Security Administration
USDA	U.S. Department of Agriculture





United States General Accounting Office  
Washington, D.C. 20548

October 6, 2000

The Honorable John R. Kasich  
Chairman, Committee on the Budget  
House of Representatives

Dear Mr. Chairman,

In the fiscal year 1999 and prior-year audits of the U. S. government's financial statements, we have reported<sup>1</sup> that certain significant financial systems weaknesses, problems with fundamental recordkeeping, incomplete documentation, and weak internal controls, including computer controls, have prevented the government from accurately reporting a large portion of its assets, liabilities, and costs. We have reported that these deficiencies affect the reliability of the agencies' financial statements and much of the underlying financial information. These deficiencies also affect the government's ability to accurately measure the full cost and financial performance of programs and assets, effectively and efficiently manage its operations, and ensure compliance with applicable laws and regulations.

Until recently, because the federal financial accounting and reporting framework did not require the inclusion of budgetary balances,<sup>2</sup> the impact of these problems on budgetary reporting was not clear. To provide a means to assess the reliability of budget execution data in the President's Budget, beginning with fiscal year 1998, agencies were required to prepare a Statement of Budgetary Resources (SBR) as one of their primary financial

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<sup>1</sup>*Financial Audit: 1999 Financial Report of the United States Government* (GAO/AIMD-00-131, March 31, 2000).

<sup>2</sup>Until implementation of the Statement of Budgetary Resources (SBR), agencies' financial statements such as the Balance Sheet, Statement of Net Position, and Statement of Net Cost included only proprietary accounting, a process that supports accrual accounting, which is consistent with requirements of the Chief Financial Officers (CFO) Act of 1990 (31 U.S.C. 3515). The SBR and the President's Budget are compiled based on budgetary accounting, which was created to aid in controlling the use of budget authority, consistent with the requirements of fiscal laws such as the Anti-Deficiency Act [31 U.S.C. 1501, 1108 (c)].

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statements. The SBR serves as a tool to link audited budget execution<sup>3</sup> information reported in audited agency financial statements to information reported in the "actual" column in the Program and Financing (P&F) Schedules of the President's Budget. Accordingly, users of financial statements should be able to better assess the reliability of these amounts in the President's Budget. This letter responds to your request that we assess to what extent that goal has been achieved.

Specifically, you requested that we review the preparation and audit of the fiscal year 1999 SBR in selected agencies and

- describe how the federal financial accounting and reporting framework outlined in the federal accounting concepts statements and standards as well as related audit requirements will help assess the reliability of the budget execution data,<sup>4</sup>
- determine whether the framework is being properly implemented, and
- determine what the results of the fiscal year 1999 agency audits tell us about the reliability of the amounts reported in the "actual" column of the fiscal year 2001 President's Budget.

To fulfill these objectives, we focused on 22 major budgetary accounts<sup>5</sup> selected for the 10 agencies/departments with the highest fiscal year 1999 net outlays as reported in the fiscal year 2001 President's Budget. We

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<sup>3</sup>Budget execution refers to the last phase of the federal budget process. It is the phase in which resources that were made available by the Congress are used over the fiscal year. Agencies use the SF-133, *Report on Budget Execution*, to submit budget execution information to the Office of Management and Budget (OMB). The SBR form and content is based on information reported in the SF-133. Instructions, general ledger accounts, and line items in the SF-133 and the SBR are generally the same and should result in minimal or no differences in the information reported. OMB Circular A-34, *Instructions on Budget Execution*, provides a crosswalk from the SF-133 to the P&F Schedule in the President's Budget. Additional information on this subject can be found in appendix II.

<sup>4</sup>The reliability of budget execution data, the subject of this report, is one aspect of the budgetary integrity objective as described in the "Background" section.

<sup>5</sup>OMB guidance requires that a combined or consolidated SBR be prepared and that information aggregated for the SBR be disaggregated for each of the reporting entity's major budget accounts and presented as supplementary information. The major budgetary accounts selected for our review were obtained from the agencies' SBR supplementary information. Major budgetary accounts as reported in an agency's SBR can include one or more appropriations included in the President's Budget. For example, the Department of Transportation's (DOT) Federal Aviation Administration (FAA) SBR shows a major budgetary column titled "Operations," which includes the Airport and Airway Trust Fund operations account and FAA's general fund operations account.

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reviewed the components of the accounting and reporting framework as described in the Federal Accounting Standards Advisory Board (FASAB) concepts and accounting standards, specifically focusing on the SBR and how it can be linked to the "actual" column in the P&F Schedules of the President's Budget. We also reviewed documentation and interviewed agency audit staff to assess whether agencies followed accounting standards and guidance in preparing the SBR, and we reviewed information in the P&F Schedules of the fiscal year 2001 President's Budget for consistency with the SBR. In addition, we reviewed the selected agencies' and/or components' audit reports and selected audit working papers to determine what the audit reports said about the reliability of the financial statements as a whole and whether there were specific comments about the SBR. We conducted our work from March 13 through August 15, 2000, in accordance with generally accepted government auditing standards. We provided summary data to each of the agencies covered by this review and obtained comments on a draft of this report from the Office of Management and Budget (OMB) as well as from agencies in which we identified preparation or audit issues. Additional information on our objectives, scope, and methodology is in appendix I.

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## Results in Brief

One of the key objectives of the federal financial accounting and reporting framework is budgetary integrity—public accountability for the collection and use of taxpayer funds. As a means to achieve this objective, the framework requires agencies to prepare a Statement of Budgetary Resources (SBR), which provides information about the status of budgetary resources, obligations, and outlays for major budgetary accounts. When properly prepared and audited, the SBR provides the means to assess the reliability of certain budget execution data presented in the President's Budget by linking audited data from the SBR to the "actual" column of the agencies' P&F Schedules included in the Budget. As this information is used in assessing the results of prior-year agency activities and making decisions about future funding, the reliability of the information is key. In addition, as outlays reported in the P&F Schedules are used in determining the amount of the annual federal budget surplus or deficit, the successful implementation of the framework provides a means to help assess the reliability of that calculation as well.

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Our review of 22 major budgetary accounts at 10 agencies, constituting approximately 77 percent of fiscal year 1999 net outlays, showed that the federal accounting and reporting framework was properly implemented for 14 accounts constituting 67 percent of the total outlays reviewed. For these accounts, the agencies or their components received a clean, or "unqualified," audit opinion<sup>6</sup> on their fiscal year 1999 financial statements, and we were able to successfully link amounts in the SBRs to the P&F Schedules in the President's Budget. These agencies did not have significant differences between amounts in the SBR and the President's Budget, or if differences existed, they were explained in the financial statements as required by accounting standards, and did not indicate that amounts in the President's Budget were significantly misstated. Thus, the successful implementation of the framework for these accounts resulted in the determination that the budget execution data included in the "actual" column in the P&F Schedules of the President's Budget were reliable.

In addition to the assurances over the budget execution data that were provided by the successful implementation of the framework at these agencies, the preparation and audit of the SBR has yielded other benefits at these and other agencies. We found instances where the audit process identified millions of dollars in obligations that were no longer needed and internal control weaknesses related to the processing and recording of budgetary amounts. As a result of the auditors' findings, agencies took actions to correct these amounts and to remedy identified control weaknesses. These actions should help improve the reliability of budget execution data reported in the future by these agencies.

However, problems in implementing the framework have been an impediment to determining the reliability of budget execution information for the remainder of the accounts reviewed. The major impediments encountered included (1) data quality problems, which affected the overall financial statements of the agencies, including the SBR, and precluded any auditors' determination of the reliability of the amounts presented and (2) lack of disclosure of significant differences between the SBR and the P&F Schedules, resulting in the inability to link the two sets of numbers and therefore to determine whether the P&F numbers were reliable. Contributing to the latter problem was a lack of recognition by some

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<sup>6</sup>A clean, or unqualified, audit opinion means that information presented in the financial statements as a whole is fairly presented in accordance with generally accepted accounting principles.

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agencies of differences in reporting requirements for budget execution data in the SBR and for the actuals in the President's Budget P&F Schedules. OMB officials stated that they are currently revising their guidance related to budgetary reporting, and we are providing specific recommendations for what those revisions should address. In addition, in one case, auditors found evidence of incorrect and/or unsupported budgetary account information in the SBR. However, because of data limitations, the auditors were unable to complete their procedures and thus could not determine the full extent of the errors or misstatements.

While we found that some audit improvements could be made, our review of the financial statement audits covering<sup>7</sup> the 22 major budgetary accounts showed that they were generally adequate. In at least one case, the auditors developed a strategy that was used to help ensure that adequate procedures to audit the SBR were consistently performed and documented.

As more agencies are able to prepare reliable financial statements, including the SBR, the ability to determine and offer assurances concerning the reliability of the budget execution data in the President's Budget will be expanded. However, significant improvements in financial management at several major agencies are necessary before this goal can be achieved.

In their comments on a draft of this report, officials from OMB and agencies included in this review generally concurred with our findings and conclusions. Clarifying comments they provided were incorporated into our report where appropriate.

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## Background

The federal financial accounting and reporting framework developed by the Federal Accounting Standards Advisory Board<sup>8</sup> (FASAB) comprises the statements of accounting concepts and standards that guide the federal government's efforts to achieve financial accountability. The first reporting objective of the framework is "budgetary integrity." Budgetary integrity as defined by FASAB's accounting concepts means that federal financial

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<sup>7</sup>Based on the concept of materiality, individual budgetary accounts are audited in relation to the financial statements as a whole and may not be individually audited.

<sup>8</sup>FASAB was established in 1990 by the Secretary of the Treasury, the Director of OMB, and the Comptroller General. FASAB issues accounting standards for federal government financial statement reporting to address the financial information needs of the Congress, executive agencies, and other users of federal financial information.



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reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with related laws and regulations. In particular, FASAB's Statement of Federal Financial Accounting Concepts states that federal financial reporting should provide information that helps users determine

- how budgetary resources have been obtained and used, and whether their acquisition and use were in accordance with legal authorization, and
- the status of budgetary resources.

An additional aspect of the budgetary integrity objective, which is not the focus of this report, is to help users determine how information on the use of budgetary resources relates to information on the cost of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities. This part of the objective can be achieved through the preparation and audit of the Statement of Financing. The reconciliation of proprietary and budgetary information in the Statement of Financing shows the relationship between budgetary resources obligated by the entity during the period and the net cost of operations. However, since the SBR is the financial statement that introduces budgetary accounting in the agency's financial statements and also provides the linkage to the President's Budget, this report focused on the objectives of the framework related to the preparation of the SBR.

In reaching the goal of budgetary integrity as defined by reporting standards, the SBR is an important component of the federal financial accounting and reporting framework. The preparation of the SBR (including related disclosures) provides an opportunity to link budget execution data reported in the agencies' financial statements to that reported in the agencies' P&F Schedules in the President's Budget. Because the SBR is required to be audited, the linkage of the SBR to the P&F Schedule can provide assurance over the reliability of the budget execution amounts reported in the P&F Schedules.

The inclusion of the SBR as one of the primary financial statements requires the statement to be audited as part of the yearly financial statement audits required by the Chief Financial Officers (CFO) Act of 1990 as amended by the Government Management Reform Act of 1994. Several of the CFO Act's requirements are aimed at improving the financial

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information available to the Congress, agency managers, and other users of the financial information.<sup>9</sup> OMB implemented the audit provisions of the CFO Act as amended in its audit guidance issued for auditors of federal agencies.<sup>10</sup> OMB audit guidance requires auditors to test and report whether (1) agencies' financial statements are fairly presented in all material respects, in conformity with applicable federal accounting standards; (2) internal controls are properly designed to provide reasonable assurance that financial reporting and compliance objectives are met; and (3) agencies comply with laws and regulations that have a direct and material effect on the financial statements and with other governmentwide policies identified by OMB.

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## Accounting and Reporting Framework Design Helps Achieve Budgetary Integrity Objective

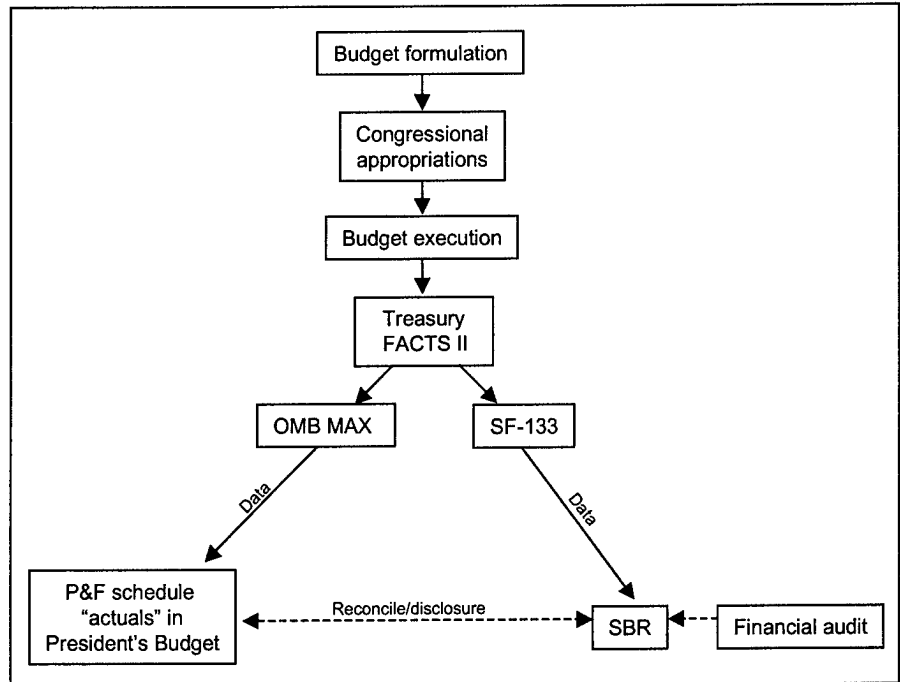
The federal financial accounting and reporting framework, comprising the statements of financial accounting concepts and standards that guide federal accounting, has as its first reporting objective "budgetary integrity." In reaching that goal, the SBR is an important component of the framework. The preparation of the SBR (including related disclosures), its linkage to the President's Budget data, and the audit of the statement provide the means for assessing the reliability of budget execution data reported in the agency's financial statements and in the "actual" column of the President's Budget P&F Schedules. Reliable "actual" data in the President's Budget can help ensure that oversight officials have accurate and complete information with which to assess how agencies are spending their funds. In addition, through this process, it is possible to assess the reliability of outlays, which is key to determining the amount of the federal budget surplus or deficit.

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<sup>9</sup>The CFO Act, as amended, requires federal agencies covered by this act to improve their financial management activities relating to the programs and operations of the agency. CFO agencies are required to (1) develop and maintain integrated financial systems, (2) prepare and submit audited financial statements, (3) reconcile financial information to budget reports, and (4) ensure that accounting and financial management systems comply with applicable accounting principles and standards to provide for complete, reliable, consistent, and timely information needed to manage agency operations.

<sup>10</sup>OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, establishes the minimum requirements for audits of federal financial statements.

**Figure 1: Overview of How the Accounting and Reporting Framework Helps Assess the Reliability of Budget Execution Data**



Source: Developed by GAO based on information described below.

During budget formulation, OMB presents the President's Budget to the Congress for consideration. After its deliberation, the Congress appropriates funds for federal agencies' programs and operations. Once funds are appropriated, agencies execute the budget, recording in budgetary and proprietary<sup>11</sup> accounting systems the amounts they obligate and expend to operate their programs throughout the year. At the end of the year, budget execution data is submitted through Treasury's Federal

<sup>11</sup>Budgetary accounting measures and controls the use of resources according to the purpose for which budget authority was enacted and also tracks the use of each appropriation for specified purposes in separate budget accounts through the various stages of the budget execution process. Budgetary and proprietary information are complementary, and both types of information are essential when monitoring the financial execution of the agency's budget in relation to actual expenditures, as required by the CFO Act.

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Agencies' Centralized Trial Balance System II (FACTS II)<sup>12</sup> and reported in the President's Budget in the "actual" or prior-year column of the P&F Schedule.<sup>13</sup> The SBR is prepared by the agencies as part of their annual financial statements.<sup>14</sup> Agencies are required to reconcile amounts shown in the SBR and the P&F Schedules and disclose the reasons for any significant differences in the notes to the financial statements. The SBR is audited as part of the agencies' yearly financial statement audits. The agency reconciliation and the auditor's report are helpful in understanding the reliability of amounts reported in the President's Budget actuals, and they support FASAB's objective to help provide relevant and reliable information to support the budgetary process. Appendix II provides more detailed information on the SBR and how it is designed to link to the P&F Schedule of the President's Budget.

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## Audit Process Provides Mechanism to Assess Budget Execution Data Reliability

Subjecting the SBR to the rigors of a properly performed audit provides users of the federal government financial statements with a mechanism to help assess the reliability of budgetary data presented in the "actual" column of the President's Budget P&F Schedule. Government auditing standards<sup>15</sup> require the auditors of federal financial statements to (1) report whether financial statements as a whole are fairly presented in accordance with generally accepted accounting standards, (2) assess whether internal controls are adequately designed to achieve financial reporting and compliance objectives, and (3) test compliance with laws and regulations

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<sup>12</sup>FACTS II is a Treasury-run system that agencies use to submit one set of financial data that fulfills the needs of the SF-133, *Report on Budget Execution*, the FMS 2108, *Year End Closing Statement*, and much of the initial set of data that will appear in the "prior year" column of the P&F Schedule of the President's Budget.

<sup>13</sup>OMB Circular No. A-11, *Preparation and Submission of Budget Estimates*, is the guidance used by agencies to report information in the President's Budget. Agencies input information into the President's Budget Schedules using OMB's MAX system as required by Circular A-11.

<sup>14</sup>OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, is the guidance used by agencies to prepare the SBR. Per OMB's guidance, the SBR illustrates in condensed form the information that Circular A-34, *Instructions on Budget Execution*, requires to be reported on the SF-133, *Report on Budget Execution*. Further information on the relation of the SBR to the SF-133 is provided in appendix II.

<sup>15</sup>Comptroller General's Government Auditing Standards, 1994 Revision. For financial statement audits, generally accepted government auditing standards (GAGAS) incorporate the American Institute of Certified Public Accountants (AICPA) audit standards.

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that could have a direct and material effect on the financial statements and report on instances of noncompliance. As mentioned earlier, OMB incorporates these standards in its audit guidance for federal auditors. For example, testing whether agencies comply with applicable laws and regulations requires auditors to test whether transactions are executed in accordance with laws governing the use of budget authority and other laws such as the Federal Financial Management Improvement Act (FFMIA) of 1996, which requires, among other things, that agencies' financial management systems comply substantially with federal financial management systems requirements,<sup>16</sup> federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level.

Assessing the reliability of budget execution data reported in the SBR requires auditors to test the amounts and their accuracy.<sup>17</sup> For example, for testing of obligated balances, the auditors must determine that:

- Obligations making up the balances are valid obligations at the end of the year. Typical audit procedures may include but not be limited to
  - examining obligation documents to ensure that the obligation remains valid, and
  - determining that the obligation has not already been liquidated or canceled.
- Valid obligations that exist are included in the balances. Typical audit procedures may include but not be limited to
  - examining obligating documents (e.g., purchase orders, contracts) to determine whether they were recorded as obligations, and
  - examining outlays to determine whether they had been recorded as obligations.
- The obligation amounts are accurately and properly recorded.

Similar objectives and procedures are expected for all significant balances in the SBR.

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<sup>16</sup>OMB Circular A-127, *Financial Management Systems*, references the series of publications titled Federal Financial Management Systems Requirements issued by the Joint Financial Management Improvement Program (JFMIP) as the primary source of governmentwide requirements for financial management systems. JFMIP is a cooperative undertaking of OMB, the Department of the Treasury, the Office of Personnel Management, and GAO working with operating agencies to improve financial management practices throughout the government.

<sup>17</sup>Audit procedures vary significantly depending on agency systems, procedures, and controls as well as the significance of the reported balances.

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In addition, assessing management's controls over the processing, recording, and summarization of financial statement data requires auditors to evaluate whether the agency has controls in place to provide reasonable assurance that losses, noncompliance with laws and regulations, or misstatements material in relation to the financial statements would be prevented or detected. As they relate to obligations reported in the SBR, controls over the initial recording of obligations, should be evaluated by auditors, as should the monitoring of obligated balances to determine whether they remain valid as of the end of the fiscal year.

The results of a properly performed audit of the financial statements, including the SBR, provide valuable information about the reasonableness of budget execution data presented in the SBR and in the President's Budget. For example, when a properly performed audit results in an unqualified audit opinion, this means that the basic financial statements and accompanying notes are fairly presented in all material respects in accordance with applicable accounting standards. Therefore, this provides reasonable assurance that the budget execution data in the SBR are reasonably stated, and if amounts in the SBR can be successfully reconciled to the P&F Schedules of the President's Budget, the audit provides a means to assess the reliability of the amounts in the President's Budget as well. However, even though an unqualified audit opinion may be achieved, because of the use of materiality guidelines in determining the scope of the financial audit, complete assurance over all amounts presented is not provided by the audit. In addition, unqualified opinions do not guarantee that agencies have the financial systems needed to dependably produce reliable financial information. Modern systems and good internal controls are essential to reach the goal of useful, relevant, reliable data to support decision-making on a day-to-day basis.

When the audit results in a "disclaimer" of opinion, this means that the auditor is unable to obtain satisfaction that the financial statements are fairly presented due to material uncertainties or severe limitations on the scope of the audit. This, in turn, means that no assurance over the reliability of the budget execution data in the SBR can be provided from the audit and, therefore, no assurance regarding the amounts in the President's Budget can be offered.

Even when an unqualified opinion is obtained, because of timing differences between the submission of budget execution data to the President's Budget and the issuance of audited financial statements, adjustments to correct budgetary balances may be included in the SBR but

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not be reflected in the President's Budget. For this reason, information in the President's Budget should be used in conjunction with audited SBR results to obtain the most updated and reliable information.

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## Successful Implementation of the Framework Was Achieved for the Majority of the Budgetary Accounts Reviewed

Successful implementation of the framework was achieved for 14 of the 22 major budgetary accounts reviewed, thus providing a basis to conclude on the reliability of a large segment of the budget execution data reported in the P&F Schedules of the President's Budget. For these accounts, the agencies or their components received an unqualified audit opinion on their fiscal year 1999 financial statements, and we were able to successfully reconcile amounts in the SBR to amounts in the "actual" column in the P&F Schedules. In addition, these agencies did not have significant differences between the amounts in the SBR and the P&F Schedules, or if differences existed, they were explained in the financial statements as required by federal accounting standards and did not indicate that amounts in the P&F Schedules were significantly misstated.

The following are examples of successful implementation of the framework:

- Auditors for the Health Care Financing Administration (HCFA) of the Department of Health and Human Services found that financial statement balances including the SBR were fairly stated. Our comparison of the amounts in the SBR and the President's Budget for four of its budgetary accounts reviewed showed insignificant or no differences between the amounts reported.
- Auditors for the Department of Labor (DOL) found that financial statement balances including the SBR were fairly stated, and we were able to successfully reconcile amounts in the SBR major budgetary column to information on the corresponding column in the P&F Schedules. Our comparison of the amounts in the SBR and the President's Budget for the Unemployment Trust Fund showed a \$75.6 billion difference, which was explained by the agency in the financial statement notes as required by accounting standards. This difference was mainly the result of the agency's inclusion of its entire trust fund balance in the SBR while for the P&F Schedule of the President's Budget, OMB regards prior-year trust fund balances and any unused portion of the current year's collections as amounts unavailable

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for obligation.<sup>18</sup> OMB includes these additional balances in the President's Budget in a separate schedule titled "Unavailable Collections."<sup>19</sup>

For these budgetary accounts, users of budgetary information can have assurance that the summary amounts for budgetary resources, obligations, and outlays included in the President's Budget are reasonably stated. See appendix III for a list of other major budgetary accounts for which the accounting and reporting framework was successfully implemented.

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## Other Benefits Resulted from the Implementation of the Framework

In addition to the assurances over the budgetary actuals that were provided by the successful implementation of the framework at many agencies, the preparation and audit of the SBR has yielded benefits at these and other agencies. In some instances, the audit process identified millions of dollars in obligations that were no longer valid and internal control weaknesses related to the processing and recording of budgetary amounts. As a result of the auditors' findings, agencies took action to remedy identified weaknesses and also implemented corrective plans to address these deficiencies in the future and to improve the presentation and reliability of budgetary data in the financial statements. For example:

- In fiscal year 1998, the Department of Transportation (DOT) Office of Inspector General (OIG) was unable to substantiate amounts in the SBR and accordingly did not express an opinion on the financial statements.<sup>20</sup> Subsequently, during fiscal year 1999,<sup>21</sup> the OIG performed

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<sup>18</sup>This difference between the SBR and the P&F Schedule resulted from differences in the interpretation of OMB's guidance. According to OMB, the presentation of trust fund balances in the SBR is being resolved with DOL and other affected agencies, and this difference should not occur in the future.

<sup>19</sup>OMB's guidance for the preparation of the SF-133 and the SBR requires agencies to exclude from total budgetary resources certain amounts OMB considers unavailable for obligation. For example, OMB regards prior-year trust fund balances and current unused collections as "collections unavailable for obligation" and excludes or reduces these amounts in the P&F Schedule of the President's Budget. DOL included its trust fund balance information in the SBR in calculating total resources available but properly explained this difference in the notes to the financial statements.

<sup>20</sup>The inability to support SBR balances was reported by DOT's OIG as one of several factors that contributed to its inability to render an audit opinion in fiscal year 1998.

<sup>21</sup>*Office of Inspector General's Audit Report, Inactive Obligations*, Department of Transportation (Report No. FE-1999-131, September 27, 1999).



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supplemental work and found \$672 million of recorded obligations that were no longer needed. For this agency, the existence of unneeded obligations in budgetary accounts means that the Congress and agency management have an inaccurate picture about the use and availability of federal resources that may be available for obligation.<sup>22</sup> The auditors reported that these unneeded obligations existed because regular reviews of obligations were not being performed as required. As a result of these findings, DOT initiated actions to improve controls over the review and validation of obligations, and adjusted or deobligated the balances to eliminate unneeded amounts.

- In the fiscal year 1999 audit of the Food and Nutrition Service (FNS) financial statements, auditors discovered a duplicate adjustment for \$16 million that resulted in an understatement of obligations reported in the President's Budget.<sup>23</sup> As a result of this audit finding, FNS officials told us they modified their controls to prevent similar recording errors in the future.

Although some agencies continue to be challenged in the preparation of reliable auditable financial statements, as discussed below, the preparation of the SBR as part of the agency's financial statements has raised management awareness about deficiencies in internal controls and reporting of budgetary data. As indicated above, in several cases agencies have taken steps to address these deficiencies, which will help improve the reliability of future budget execution data.

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## Framework Was Not Properly Implemented for the Remainder of the Major Budgetary Accounts Reviewed

The accounting and reporting framework was not properly implemented for 8 of the 22 major budgetary accounts reviewed. For these accounts, the budgetary integrity objective was not fully accomplished for the following reasons.

- Data quality problems that affected the overall financial statements of the agencies, including the SBR, precluded any auditor's determination about the reliability of the amounts presented. For one agency we

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<sup>22</sup>DOT's Highway Trust Fund account is an indefinite appropriation, which means that unneeded obligations can be deobligated, and the funds become available for new obligations without further action from the Congress.

<sup>23</sup>FNS officials stated that due to the timing of the adjustment a correction on the SF-133 was not permitted by OMB.

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reviewed, auditors also found instances in which SBR amounts were incorrect and/or not supported. In addition, although some audit improvements could be made, the audits reviewed were generally adequate.

- There was a lack of disclosure of differences between the SBR and the P&F Schedules, which broke the linkage between the two sets of numbers. This means that the amounts presented in the two documents could not be readily reconciled, which precluded users of the documents from being able to determine the reliability of the actuals presented in the President's Budget.

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## Data Quality Problems

For five major budgetary accounts (for three agencies or their components), data quality problems, such as inadequate financial systems and long-standing internal control weaknesses, affected the agencies' financial statements, including the SBR, and precluded the auditors' determination of the reliability of the amounts presented. In addition, for one agency, auditors found through their testing that SBR amounts were incorrect or not supported. For example:

- The U.S. Department of Agriculture (USDA) auditors reported that they were unable to express an opinion on the agency's financial statements because the agency was unable to provide sufficient, competent evidence to support numerous material line items on its financial statements.<sup>24</sup> For example, auditors were unable to substantiate the "Fund Balances with Treasury" balance totaling over \$38 billion because the agency's reconciliation procedures were not sufficient and unexplained differences between department records and Treasury records, first identified in the fiscal year 1992 audit, went uncorrected, in some instances for more than 10 years. The out of balance amount as of September 30, 1999, was about \$5 billion. Significant unexplained or unreconciled differences in an agency's fund balance information with Treasury could result in misstatements in the financial statements and in certain data, such as obligations and outlays provided by the agency for inclusion in the President's Budget. This is because Treasury processes almost all federal receipts and outlays, and unreconciled differences may indicate the existence of incorrect agency accounting records.

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<sup>24</sup>Office of Inspector General Financial and IT Operations Audit Report, Consolidated Financial Statements for Fiscal Year 1999, Department of Agriculture (Report No. 50401-35-FM, February 2000).

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- The Department of Housing and Urban Development (HUD) auditors reported that they were unable to express an opinion on the agency's financial statements due to material internal control weaknesses that affected the agency's ability to prepare auditable financial statements in a timely manner.<sup>25</sup> For example, material internal control weaknesses in the implementation of HUD's new core financial management system and its inability to comply with the *U.S. Government Standard General Ledger* (SGL) resulted in numerous rejected or incorrectly posted transactions that had to be manually researched and corrected. In addition, the transition of the systems was done without the development of an automated program to help reconcile the general ledger cash accounts to Treasury's figures. As a result, the reconciliation process to identify discrepancies fell behind, and HUD made numerous adjustments to its general ledger fund balances with Treasury account to make agency amounts agree with Treasury records without a proper reconciliation process to ensure that Treasury balances were correct. Auditors stated that significant unexplained differences remained with the fund balance with Treasury reconciliation when they ceased their audit work and issued a disclaimer of opinion.<sup>26</sup> As with USDA, significant unreconciled differences in HUD's fund balance information with Treasury could result in misstatements in the financial statements and in certain data, such as obligations and outlays provided by the agency for inclusion in the President's Budget.
  - The Department of Defense (DOD) auditors were unable to render an opinion on the agency's financial statements, including the SBR, because DOD was unable to support balances in the financial statements. In addition, through their testing, DOD auditors found that certain obligated balances were not correct, certain disbursements were not properly recorded, and fund balances with Treasury remained unreliable, among other deficiencies.<sup>27</sup> In their testing of obligated balances, auditors found evidence of unsupported obligations and poor

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<sup>25</sup> *Office of Inspector General's Report, Attempt to Audit the Fiscal Year 1999 Financial Statements*, Department of Housing and Urban Development (Report No. 00-FO-177-0003, March 1, 2000).

<sup>26</sup> HUD received an unqualified audit opinion in fiscal year 1998. HUD stated that since the fiscal year 1999 audit, it has completed the reconciliation of its fiscal year 1999 Fund Balance with Treasury accounts and has determined that there is no need to restate its fiscal year 1999 financial statements, subject to OIG's ongoing audit review.

<sup>27</sup> *Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

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internal controls over obligations as illustrated by the following examples.

- Audit results showed that for the Air Force Working Capital Fund, \$211 million out of approximately \$1 billion in obligations tested (700 out of 2,526 transactions) were incorrect, inadequately supported, or not supported.
- The Army Audit Agency found that internal controls over the recording of obligations were not adequate to ensure that amounts reported in the Army's General Fund Statement of Budgetary Resources for fiscal year 1999 were accurate. In a sample of 60 transactions, the auditors found that 21 could not be supported.
- The Department of the Navy identified its unliquidated and invalid obligations as a material management control problem.
- Disbursements were not properly matched to specific obligations recorded in DOD's records.
- Frequent adjustments were made to recorded payments to record the payment to another appropriation account, including canceled appropriations. During fiscal year 1999, data showed that almost one of every three dollars in contract payment transactions was for adjustments to previously recorded payments—\$51 billion in adjustments out of \$157 billion in transactions. Many of these adjustments were made to original entries that were recorded years earlier and to accounts already canceled.

These and other data quality problems at DOD resulted in unauditable financial statements, meaning that audit assurance over the reliability of budgetary amounts in the SBR and thus, the "actual" column of the President's Budget P&F Schedules could not be provided. In addition, the inability to support significant budgetary balances, including disbursements and obligation balances; related internal control weaknesses, such as a failure to properly match disbursements to obligations; and the frequent adjustments to payment records suggest that amounts included for these budgetary accounts in the "actual" column of the President's Budget are misstated. However, since auditors were unable to complete their audits because of the poor condition of DOD's accounting records, the full extent of misstatements could not be determined.

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## Improved Disclosures Needed for Differences Between the SBR and President's Budget

For three major budgetary accounts (for three agencies or agency components) where the agencies' financial statements, including the SBR, were determined to be fairly stated by the auditors and we determined that budgetary information was reliable, we found significant differences between amounts in the SBR and the P&F Schedules<sup>28</sup> that were not explained in the notes to the financial statements as required by federal accounting standards. Although we determined that budgetary amounts could be reconciled to the SBR and that the differences were justified, the absence of disclosures explaining these differences precludes users from being able to understand them and their effect on the amounts presented in the P&F Schedules.

Although some differences in budgetary amounts between the SBR and the "actual" column of the P&F Schedule were caused by differences in interpretation of OMB guidance, as noted below, others were expected due to differences in OMB's guidance used to prepare the SBR and to report budget execution information in the President's Budget "actual" columns, as the following examples illustrate.

- The Social Security Administration (SSA) Federal Old-Age Survivors Insurance Trust Fund reported in its SBR \$1,068.9 billion in total budgetary resources, while the President's Budget P&F Schedule reflected \$341.4 billion in total budgetary resources available. This \$727.5 billion difference is mainly the result of the agency's inclusion of its entire trust fund balance in the SBR to recognize the trust funds total assets,<sup>29</sup> while in the P&F Schedule of the President's Budget, OMB regards prior-year trust fund balances and any unused portion of the current year's collection as amounts unavailable for spending and includes these balances in the President's Budget in a separate schedule titled "Unavailable Collections," as mentioned earlier. However, the lack of a cross-reference precludes users from tracking amounts between the SBR and the P&F Schedule of the President's Budget. SSA did not disclose differences in its financial statements in part because its financial statements were issued before the President's Budget issuance

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<sup>28</sup>OMB Circular A-34, *Instructions on Budget Execution*, states that budget execution data reported in the SF-133, the SBR, and data presented in the "actual" column of the President's Budget P&F Schedule should generally be the same.

<sup>29</sup>As mentioned earlier, according to OMB, the presentation of trust fund balances in the SBR is being resolved with SSA, and this difference should not occur in the future.

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date, and therefore, actual differences between the two documents could not be determined.

- DOT's Federal-Aid Highways account in the Highway Trust Fund SBR reflected \$15.4 billion less in total budgetary resources available for obligation than what was reported in the President's Budget. This occurred because OMB guidance used to prepare the SBR requires agencies to exclude amounts not available for obligation from their total budgetary resources, and DOT adjusted its total budgetary resources to reflect the reduction. This exclusion is called a limitation on obligations.<sup>30</sup> However, the President's Budget P&F Schedule did not reflect this reduction and reported this amount as part of the unobligated balances available. The agency did not adequately explain this difference in the notes to the financial statements.
- The Food Stamp Program of USDA's Food and Nutrition Service reported \$14.7 billion more total budgetary resources available in the SBR than in the President's Budget. This difference is due mainly to differences between OMB's reporting requirements for the SBR and for "actual" amounts in the President's Budget. Instructions for the SF-133 and accordingly the SBR, require the inclusion of available budgetary authority for expired budgetary accounts, while instructions for amounts to be included in the President's Budget exclude the budget authority amounts for expired accounts. The agency did not adequately explain this difference in the notes to the financial statements. Without an explanation for these reporting differences, a reader of the SBR might conclude that an additional \$14.7 billion was available for future obligation, when in reality, this amount can only be used for very limited purposes.<sup>31</sup>

OMB is aware of the differences reported above, and OMB officials told us that they are currently revising the guidance for the form and content of federal agencies' financial statements, and other budget-execution-related guidance, such as Circular A-34, to address these differences. OMB's goal is to minimize differences between the SBR; SF-133, *Report on Budget*

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<sup>30</sup>A limitation on obligations is a restriction on the amount of budgetary resources that can be obligated or committed for a specific purpose.

<sup>31</sup>The SBR balances include information on expired accounts for up to 5 years as required by OMB guidance. Obligated balances for any of those five years may be used to liquidate obligations properly chargeable to that fiscal year. The unobligated balances remain available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously underrecorded obligations. At the end of the fifth year, the expired account is cancelled. (31 U.S.C. 1551-1553).

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*Execution*; and the "actual" column in the President's Budget P&F Schedules, as well as in the cases where differences exist by design,<sup>32</sup> to improve the disclosure of these differences. Since OMB's revised guidance is currently being developed, it is too early for us to determine whether revisions will resolve the differences identified during our work.

In addition to the accounts discussed above, the USDA's Commodity Credit Corporation (CCC) Fund account had significant undisclosed differences resulting from the agency's use of different sources of data to input information into the President's Budget and the SBR and from adjustments made to the SBR that were received too late to be reflected in the President's Budget. Data quality problems also existed for this account, and we were unable to reconcile the SBR to the P&F Schedule.

The CCC officials could not explain significant differences found between amounts in the SBR and the "actual" column of the President's Budget for CCC's Fund account. For example, the unobligated beginning-of-year balance showed \$9.7 billion more in the President's Budget than in the SBR. Also, obligations incurred were reported at \$4.9 billion more in the President's Budget. CCC officials attributed most of these differences to the use of proprietary accounts (accrual basis reporting), instead of budgetary accounts,<sup>33</sup> when reporting to OMB.<sup>34</sup> Also, numerous adjustments were posted to correct various SBR line items subsequent to submission of data to the President's Budget. However, the overall effect of these adjustments could not be determined because CCC's financial statements were not prepared in time for the fiscal year 1999 audit of USDA's consolidated financial statements.

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<sup>32</sup>For example, budget authority for expired accounts is included in the SBR but excluded from the P&F Schedule.

<sup>33</sup>As explained earlier in the report, proprietary and budgetary accounting are complementary, but both types of information and the timing of the recognition of transactions and events are necessarily different because they serve different purposes.

<sup>34</sup>CCC budget officials stated that they used proprietary accounts to submit budget execution information because their budget accounting system does not provide the level of detail necessary to input information into the President's Budget. CCC officials also stated that for fiscal year 2000, CCC is implementing a new accounting system that will provide the level of detail necessary to input budgetary account information into the President's Budget.

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## Agency Audits Were Generally Adequate, but Some Improvements Could Be Made

While we found that some improvements could be made, our review of the financial statement audits covering 22 major budgetary accounts showed that procedures performed to audit SBR balances were generally adequate. Auditors at DOL<sup>35</sup> developed a strategy that ensured that audit team members acquired sufficient evidence to support their opinion on the SBR. The DOL auditors produced an audit guide that included steps for (1) obtaining an understanding of applicable budgetary accounts, (2) reviewing appropriation provisions, (3) testing controls over compliance with appropriation provisions, and (4) tracing and vouching transactions to test budgetary accounting. Training was provided to audit team members on the audit guide and covered the structure of the SBR and its relationship to the SF-133. As a result of this preparation, the auditors had sufficient, credible evidence and audit coverage to support their opinion on the SBR.

In other cases, we noted that better documentation of the audit approach and procedures performed would improve the audit process. For example, working papers for the audit of one budgetary account we reviewed did not include audit programs or other documentation, such as audit summary memos, indicating that tests were performed for significant SBR line items and describing the test results. Therefore, we could not tell whether the procedures performed were adequate. For two audits, it was difficult to determine how auditors linked tests performed on proprietary accounts to budgetary accounts. These tests were used to provide assurance over certain SBR balances. Government auditing standards<sup>36</sup> require that auditors obtain sufficient competent evidential matter through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. These standards also state that audit working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain what evidence supports the auditors' significant conclusions and judgments.

The lack of evidence of sufficient audit procedures increases the risk that, if significant errors exist in agency financial statements, including the SBR, they will not be detected by the auditor and will lead to an inappropriate audit opinion. We have communicated these issues to the relevant auditors

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<sup>35</sup>M.D. Oppenheim & Company, P.C., Certified Public Accountants, were responsible for auditing the SBR at DOL.

<sup>36</sup>Comptroller General's Government Auditing Standards, 1994 revision.



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and provided them with model audit procedures to test significant SBR line items.

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## Conclusion

As more agencies are able to prepare reliable financial statements, including the SBR, the ability to determine and offer assurances concerning the reliability of the budget execution data in the President's Budget will be expanded. However, significant improvements in financial management at several major agencies are necessary before this goal can be achieved. In addition, until differences resulting from implementation and reporting guidance are resolved, and agencies are able to properly reconcile and explain differences between the SBR and P&F Schedule amounts, linkage between amounts in the agency's audited financial statements and the President's Budget cannot be achieved, thus preventing an assessment of the reliability of the amounts in the President's Budget. We have communicated the issues identified in this report to the appropriate agencies and/or their auditors, and we will continue to monitor efforts to improve the preparation and audit of the SBR. In addition, we have discussed these issues with OMB, which is currently revising both the guidance for the form and content of federal agencies' financial statements and other budget-execution-related guidance to address these differences.

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## Recommendations

As OMB considers improvements in reporting under the SBR, we recommend that the Director of the Office of Management and Budget do the following.

- Modify guidance related to the form and content of agency financial statements as well as guidance in Circular A-34, *Instructions on Budget Execution*, to address the differences between the presentation of budgetary amounts in the SBR and the "actual" column in the P&F Schedule of the President's Budget as discussed in this report. The items that should be addressed are
  - expired budget authority,
  - limitations on obligations, and
  - trust fund presentation of amounts that OMB considers unavailable for obligation.
- Revise guidance related to agencies' explanation and disclosure of differences in summary totals between the SBR and the President's Budget actuals to provide more specific instructions on how these amounts should be reconciled. At a minimum, revised guidance should

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require the agency to provide enough information to allow users to understand the nature and amount of these differences.

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## Agency Comments

Agency officials, including officials from OMB, generally concurred with our findings and conclusions. OMB and several other agencies made clarifying comments that were incorporated into our report where appropriate.

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We are sending copies of this report to the Honorable John M. Spratt, Jr., Ranking Minority Member of the House Committee on the Budget; the Honorable Jacob J. Lew, the Director of the Office of Management and Budget; and other interested parties. Copies will be available to others upon request.

If you have any questions regarding this report, please contact me at (202) 512-9508 or John C. Fretwell, Assistant Director, at (202) 512-9382. Key contributors to this assignment were Elizabeth Martinez, Denise Fantone, and Maria Zacharias.

Sincerely yours,



Linda M. Calborn  
Director, Financial Management and Assurance

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# Objectives, Scope, and Methodology

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We were asked to review the preparation and audit of the fiscal year 1999 SBR in selected agencies and

- describe how the federal financial accounting and reporting framework outlined in the federal accounting concepts statements and standards as well as related audit requirements will help assess the reliability of the budget execution data,
- determine whether the framework is being properly implemented, and
- determine what the results of the fiscal year 1999 agency audits tell us about the reliability of the amounts reported in the "actual" column of the fiscal year 2001 President's Budget.

To fulfill these objectives, we focused on 22 major budgetary accounts selected for the 10 agencies/departments with the highest fiscal year 1999 net outlays as reported in the fiscal year 2001 President's Budget. A complete list of these major budgetary accounts and agencies is included in appendix III.

The agencies included in our review were: Department of the Treasury, Social Security Administration, Department of Health and Human Services, Department of Defense, U.S. Department of Agriculture, Office of Personnel Management, Department of Transportation, Department of Veterans Affairs, Department of Housing and Urban Development, and Department of Labor.

We took the following steps in conducting our review.

- To describe how the framework's design helps assess the reliability of budget execution data, we reviewed the components of the accounting and reporting framework as described in the FASAB concepts and accounting standards, specifically focusing on the SBR and how it can be linked to the "actual" column in the P&F Schedule of the President's Budget.
- To determine whether the accounting framework was properly implemented, we
  - reviewed documentation and interviewed agency audit staff to assess whether agencies followed accounting standards and guidance in preparing the SBR, and

- selected major budgetary accounts that together constituted approximately 75 percent<sup>1</sup> of each of the 10 agencies' total net outlays and compared fiscal year 1999 information reported in their respective SBRs to corresponding "actual year" information in the P&F Schedules of the fiscal year 2001 President's Budget to determine if the information was consistent. For this report, we focused on differences that significantly affected total budgetary resources and outlays rather than differences that existed between the two documents at the individual line item level.
- To determine what the results of the fiscal year 1999 financial statement audit tell us about the reliability of the amounts reported in the President's Budget, we reviewed the selected agencies' and/or components'<sup>2</sup> audit reports and selected audit working papers to determine
  - what the auditors' opinion said about the reliability of the financial statements as a whole and whether there were specific comments about the SBR,
  - what the auditors' reports said about internal controls that affect the SBR,
  - whether the auditors made other comments related to budgetary integrity, and
  - whether auditors performed the work in accordance with generally accepted government auditing standards.

We provided summary data to each of the agencies covered by this review and obtained comments on a draft of this report from those agencies where we identified preparation or audit issues. Comments were considered and incorporated where appropriate. We also discussed these issues with OMB officials and incorporated their comments as appropriate.

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<sup>1</sup>We previously reviewed the Department of Defense (DOD) implementation of the SBR requirements and reported on the results of that review in a recent testimony, *Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000). We used the results of that work in this report, and accordingly limited our DOD work for this report to one additional appropriation.

<sup>2</sup>Agency components are separately identified units that had separate fiscal year 1999 financial statements and audits. For example, the Food and Nutrition Service and the Forest Service components of the U.S. Department of Agriculture had separate audited financial statements.

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# SBR Preparation and Linkage to the President's Budget Program and Financing Schedule

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Until the implementation of the SBR in fiscal year 1998, agencies were not required to include budgetary information in their financial statements; thus, there was no linkage between an agency's financial results presented in the statements and the agency's budgetary information reported in the "actual" column of the President's Budget Program & Finance (P&F) Schedule. The SBR form and content was designed to provide information on budget execution amounts, including budgetary resources, availability of resources, and how obligated resources have been used.<sup>1</sup> As part of the preparation of the SBR, agencies are also required to disclose significant differences between amounts in the SBR and amounts reported as actuals in the President's Budget P&F Schedule to ensure a linkage between budgetary amounts in the audited financial statements and information in the President's Budget.

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## Preparation of the SBR Adds Perspective to the Financial Statements

The inclusion of the SBR in the financial statements required the inclusion of budgetary amounts as part of the financial statements. The major components of the SBR are (1) Budgetary Resources (2) Status of Budgetary Resources, and (3) Outlays.

- **Budgetary resources.** This section shows total budgetary resources made available to the agency for obligation during the reporting period. It consists of
  - new budget authority (i.e., appropriations, borrowing authority, and contract authority);
  - unobligated amounts available from prior reporting periods;
  - transfers available from prior-year balances;
  - reimbursements and other income (i.e., spending authority from offsetting collections); and
  - adjustments (i.e., recoveries of prior-year obligations).
- **Status of budgetary resources.** This section displays the disposition of the budgetary resources that were made available. Totals for this section and for the Budgetary Resources sections must agree. It consists of
  - obligations incurred during the year,

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<sup>1</sup>The Office of Management and Budget (OMB) issues form and content guidance for federal agency financial statements including the SBR. The SBR follows the structure outlined in the Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*, using the definitions from the Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

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- unobligated balances at the end of the period that remain available, and
- unobligated balances at the end of the period that are unavailable.
- **Outlays.** This section shows the relation between the Obligations and Outlays. It displays the payments made to liquidate obligations, net of offsetting collections. Obligations are usually liquidated by means of cash payments (outlays) such as currency, checks, or electronic fund transfers. This section also reconciles outlays with obligations incurred and the change in obligated balances during the year. It consists of
  - obligations incurred during the year,
  - net obligations transferred,
  - beginning and ending obligated balances, and
  - outlays.

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The SBR Provides Linkage  
Between Budget Execution  
Data Reported in the  
Agency's Financial  
Statements and the  
President's Budget

The SBR form and content was based on an existing budgetary report, the SF-133, *Report on Budget Execution*.<sup>2</sup> The SF-133 is used by federal agencies to submit budget execution information to OMB and Treasury. General ledger accounts and instructions to prepare the SBR and the SF-133 are generally the same and should result in minimal or no differences in the information reported in the two documents. In addition, agencies use information on the SF-133 and other reports<sup>3</sup> to input budgetary information into the "actual" column of the President's Budget P&F Schedule during the budget submission process. This means that amounts in the SBR can be linked to amounts in the "actual" columns of the P&F Schedules.<sup>4</sup> However, because guidance for preparing the SBR and the actuals in the President's Budget may differ for certain line items, and because the timing of submission of budgetary information for the President's Budget may be earlier than the audit completion dates,

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<sup>2</sup>Per OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, agencies are to report budgetary information in the SBR based on budget terminology, definitions, and guidance issued in OMB Circular A-34, *Instructions on Budget Execution*. The SBR includes in condensed form information that Circular A-34 requires that agencies report in the SF-133. The SF-133 is one of the budgetary reports submitted to OMB and Treasury to provide budget execution information by appropriation account for the fiscal year. OMB uses budgetary information sent by agencies and Treasury to prepare certain line items in the President's Budget.

<sup>3</sup>The Year-End Closing Statement (FMS 2108) form is also used to input information into the "actual" column of the P&F Schedule.

<sup>4</sup>OMB Circular A-34 provides a crosswalk from the SF-133 to the P&F Schedule, which is helpful when reconciling amounts reported.

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differences may exist between the two documents. Differences between amounts in the SBR and the actuals in the P&F Schedules can occur because of differences in treatment of certain items in the two documents, such as amounts unavailable for obligation and expired accounts. For example, expired budget authority is excluded from the President's Budget but included in the SBR.<sup>5</sup> Because differences may exist, federal accounting standards require agencies to explain significant differences between the information presented in the SBR and information described as "actual" in the President's Budget in notes to the financial statements.<sup>6</sup>

The following example (see page 32) for the Medicaid Grants to States Appropriation for the Health and Human Services, Health Care Financing Administration (HCFA), shows how selected information in the agency's fiscal year 1999 SBR corresponds to selected information in the "1999 actual" column of the fiscal year 2001 President's Budget P&F Schedule.

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<sup>5</sup>OMB guidance for the preparation of the SF-133, and thus the SBR, requires the agency to include information on expired accounts for up to 5 years. However, guidance for reporting amounts in the "actual" column of the P&F Schedule in the President's Budget requires certain expired account information to be excluded from the P&F Schedule.

<sup>6</sup>SSFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

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**Appendix II**  
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Figure 2: Illustration of the Linkage Between the Statement of Budgetary Resources and the "Actual" Column in the Program and Financing Schedule of the President's Budget

1999 HCFA Financial Report					Supplementary Section 1999				
COMBINING STATEMENT OF BUDGETARY RESOURCES									
Year Ended September 30, 1999									
(in millions)	HI	SMI	HCFA	Payments to Trust Funds	Program Mgt.	Medicaid	SCHIP	HMO Loan	Combined Totals
<b>Budgetary Resources:</b>									
Budget authority	\$152,333	\$85,278	\$764	\$69,571		\$102,394	\$4,247		\$414,587
Unobligated balances - beginning of period	116,762	40,875	30	849	\$192	6,012	485	\$11	165,216
Net Transfers prior year balance, actual								(2)	(2)
Spending authority from offsetting collections			3		2,038	60		2	2,103
Adjustments	(138,222)	(45,615)		(835)	132	3,792			(180,748)
<b>Total Budgetary Resources</b>	<b>130,873</b>	<b>80,538</b>	<b>797</b>	<b>69,585</b>	<b>2,362</b>	<b>112,258</b>	<b>4,732</b>	<b>11</b>	<b>401,156</b>
<b>Status of Budgetary Resources:</b>									
Obligations incurred	130,873	80,538	771	69,551	2,128	111,141	4,732		399,734
Unobligated balances - available			26	34	98	1,117			1,275
Unobligated balances - not available					136			11	147
<b>Total Status of Budgetary Resources</b>	<b>130,873</b>	<b>80,538</b>	<b>797</b>	<b>69,585</b>	<b>2,362</b>	<b>112,258</b>	<b>4,732</b>	<b>11</b>	<b>401,156</b>
<b>Outlays:</b>									
Obligations incurred	130,873	80,538	771	69,551	2,128	111,141	4,732		399,734
Less: spending authority from offsetting collections and adjustments			(3)		(2,216)	(3,852)		(2)	(6,073)
Obligated balance, net - beginning of period	352	14	122		240	5,504	3,745		9,977
Obligated balance transferred, net					(110)				(110)
Less: obligated balance, net- end of period	(465)	(34)	(149)		(74)	(4,751)	(7,912)		(13,385)
<b>Total Outlays</b>	<b>\$130,760</b>	<b>\$80,518</b>	<b>\$741</b>	<b>\$69,551</b>	<b>\$(32)</b>	<b>\$108,042</b>	<b>\$565</b>	<b>\$(2)</b>	<b>\$390,143</b>

Source: Fiscal year 1999 Health Care Financing Administration Financial Report - Combining Statement of Budgetary Resources (Supplementary Section).

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HEALTH CARE FINANCING ADMINISTRATION <i>Federal Funds</i> General and Special Funds: GRANTS TO STATES FOR MEDICAID			
Program and Financing (in millions of dollars)			
Identification code 75-0512-0-1-551	1999 actual	2000 est.	2001 est.
<b>Obligations by program activity:</b>			
00.01 Medicaid vendor payments .....	104,775	109,272	116,448
00.02 State and local administration .....	5,835	6,380	7,258
00.03 Vaccine purchases .....	531	465	469
09.00 Medicare Part B premium transfer .....		50	60
10.00 Total new obligations .....	111,142	116,167	124,235
<b>Budgetary resources available for obligation:</b>			
21.40 Unobligated balance available, start of year .....	6,012	1,117	
22.00 New budget authority (gross) .....	102,394	115,050	124,235
22.10 Resources available from recoveries of prior year obligations .....	3,852		
23.90 Total budgetary resources available for obligation .....	112,258	116,167	124,235
23.95 Total new obligations .....	111,142	116,167	124,235
24.40 Unobligated balance available, end of year .....	1,117		
<b>New budget authority (gross), detail:</b>			
<b>Mandatory:</b>			
60.00 Appropriation .....	74,594	86,087	93,586
60.05 Appropriation (indefinite) .....		179	
62.50 Appropriation (total mandatory) .....	74,594	86,266	93,586
65.00 Advance appropriation .....	27,801	28,734	30,589
69.00 Offsetting collections (cash) .....		50	60
70.00 Total new budget authority (gross) .....	102,395	115,050	124,235
<b>Change in unpaid obligations:</b>			
72.40 Unpaid obligations, start of year: Obligated balance, start of year .....	5,504	4,751	4,751
73.10 Total new obligations .....	111,142	116,167	124,235
73.20 Total outlays (gross) .....	108,043	116,167	124,235
73.45 Adjustments in unexpired accounts .....	-3,852		
74.40 Unpaid obligations, end of year: Obligated balance, end of year .....	4,751	4,751	4,751
<b>Outlays (gross), detail:</b>			
86.97 Outlays from new mandatory authority .....	96,526	115,050	124,235
86.98 Outlays from mandatory balances .....	11,516	1,117	
87.00 Total outlays (gross) .....	108,043	116,167	124,235
<b>Offsets:</b>			
<b>Against gross budget authority and outlays:</b>			
88.00 Offsetting collections (cash) from: Federal sources .....		-50	-60
<b>Net budget authority and outlays:</b>			
89.00 Budget authority .....	102,394	115,000	124,175
90.00 Outlays .....	108,043	116,117	124,175

Detail  
of 73.10

Detail  
of 22.00

Detail  
of 73.20

Note: Minor differences with the SBR are due to rounding.

Source: Budget of the United States Government, Fiscal Year 2001—Appendix

# Summary of Results by Major Budgetary Account

Agency	Major budgetary account	FY 1999 Outlays <sup>a</sup> (dollars in millions)	Framework successfully implemented	Financial statement not auditable	Significant differences not disclosed in financial statements
Social Security Administration	Federal Old Age and Survivors Insurance Trust Fund	\$ 337,916			X <sup>b</sup>
Department of the Treasury	Interest Expense on the Public Debt Outstanding	353,511	X		
Department of Health and Human Services	Payments to Health Care Trust Funds	69,589	X		
	Federal Supplementary Medical Insurance Trust Fund	80,518	X		
	Federal Hospital Insurance Trust Fund	130,759	X		
	Grants to States for Medicaid	108,042	X		
Department of Defense	Aircraft Procurement, Navy	6,024		X	
U.S. Department of Agriculture	Food Stamp Program	19,005			X
	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	3,942	X		
	Child Nutrition Programs	8,878	X		
	Commodity Credit Corporation Fund	19,300		X	X
Department of Transportation	Federal-Aid Highways	22,742			X
	Federal Transit Authority Grants <sup>c</sup>	5,777	X		
	Federal Aviation Administration Operations <sup>c</sup>	5,576	X		
Office of Personnel Management	Civil Service Retirement and Disability Fund	43,932	X		
Department of Veterans Affairs	Medical Care	17,846	X		
	Compensation, Pension, and Burial Benefits <sup>c</sup>	21,148	X		
Department of Housing and Urban Development	Section 8 Rental Assistance <sup>c</sup>	14,958		X	
	Community Development Block Grants	4,804		X	
	Public and Indian Housing Loans and Grants <sup>c</sup>	4,328		X	
	Federal Housing Administration <sup>c</sup>	3,778	X		
Department of Labor	Unemployment Trust Fund <sup>c</sup>	24,870	X		
<b>Total</b>		<b>\$1,307,243</b>			

<sup>a</sup>The amount of net outlays is provided as a point of reference.

<sup>b</sup>While unobligated trust fund balances included in the agency's SBR are not included in the President's Budget P&F Schedule, the budget does include these balances in another schedule titled "Unavailable Collections."

<sup>c</sup>These lines represent more than one appropriation account in the President's Budget.

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